

# COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES  
WASHINGTON, DC 20515

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September 21, 2006

The Honorable Daniel R. Pearson  
Chairman  
U.S. International Trade Commission  
500 E Street, S.W.  
Washington, DC 20436

Dear Chairman Pearson:

As you know, there has been dramatic growth in trade between the United States and China in recent years. According to official U.S. data, U.S. merchandise exports to and imports from China grew by 153 percent and 144 percent, respectively, between 2000 and 2005. China became the fourth largest market for U.S. exports and the second largest source of U.S. imports in 2005. By 2003 China had also become the sixth largest destination for U.S. foreign direct investment (FDI) among developing economies. Global FDI in China is closely linked to growth in China's trade with the United States. According to Chinese official data, foreign-invested enterprises accounted for 67 percent of Chinese exports to and 53 percent of Chinese imports from the United States in 2005. More than three-quarters of these exports and nearly half of these imports were processing trade - imports of intermediate goods to be assembled in China ultimately for re-exportation.

China's rapid growth and development over the last two decades have been fueled by its promotion of a more market-oriented economy, including more liberalized trade and freer foreign investment flows. However, there has been extensive debate about the causes of the recent growth in U.S.-China trade, particularly exports from China, and the extent to which this growth is driven by market forces or by Chinese domestic policies, such as discriminatory taxes or targeted loans. Analyzing U.S.-China trade growth would involve determining the key sectors accounting for such growth and assessing the relative roles of trade, investment, and domestic policies in fueling that growth. A deeper understanding of U.S.-China trade growth would require closer examination of China's processing trade with the United States and the world, the role FDI plays in that trade, and the effect of that interrelationship on the magnitude and composition of trade flows between China and the United States. Finally, U.S.-China trade growth should be evaluated in the larger context of U.S.-Asian trade because of the integral economic linkages that trade and FDI have created between China and other Asian countries.

Therefore, on behalf of the Committee on Ways and Means of the United States House of Representatives, under authority of section 332(g) of the Tariff Act of 1930, I request that the Commission institute three consecutive fact-finding investigations to provide an in-depth assessment of the U.S.-China trade and investment relationship and the U.S.-Asian trade and investment relationship, considering both historical and current trends. The details of these three investigations are specified in the following paragraphs.

Study I will analyze the principle trends and patterns in trade and foreign direct investment between Asian and Pacific countries and the United States and their implications for the U.S.-China trade relationship. This study will include a discussion of the main factors influencing these trends; an in-depth examination of the industries that have had a major effect on trade and investment patterns in recent years; and, if required, formal quantitative analyses that may help to explain these trends and provide an assessment of the reliability of the data used in each analysis. This study will also review the relationship between international trade and foreign direct investment, the trade and investment policies in the major countries of the region, and their effect on economic activity both on a global scale and within the Asian and Pacific region. The Commission is requested to deliver the first report no later than 12 months from receipt of this letter.

Study II will investigate the driving factors behind the rapid growth in U.S.-China trade, including identification of the key industries, products, and services that account for the rapid growth in U.S. exports to and imports from China; assessment of the role of U.S. and Chinese government trade and investment policy, special FDI and other incentives, and private ownership in explaining this growth; comparison of these findings with factors underlying the growth of U.S. and Chinese trade with the world; and review of China's role in the U.S. trade deficit and the importance of adjusting both U.S. and Chinese trade data to account for trade passing through Hong Kong. This study will also provide in-depth case studies of selected industries, products, and services to further illustrate the relative roles of comparative advantage, trade and foreign investment policy, private sector development, business practices, and other relevant domestic policies in explaining the growth of U.S.-China trade. The Commission is requested to deliver the second report no later than 18 months from receipt of this letter.

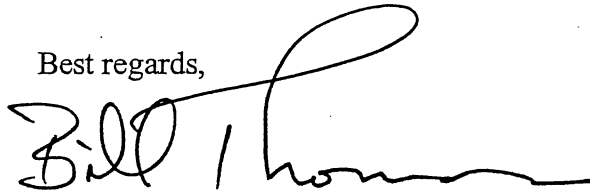
Study III will provide an in-depth examination of China's integration with the global economy through processing trade and FDI, and its implications for U.S.-China trade and investment. This study will include an analysis of: the extent of processing trade in China's total trade with the United States and the world and the industry characteristics (e.g., scale, capital-intensity) that influence its extent and pattern; the importance of FDI in China from the United States and other countries and the role of FDI in U.S.-China processing trade; qualitative and quantitative analysis of the joint

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impact of FDI and processing trade on the volume and composition of U.S.-China trade flows. The study will also: identify the leading areas of investment by sector, industry, product, leading source countries, and major types of FDI; and review the relevant trade, foreign investment, and domestic policies affecting FDI. The Commission is requested to deliver the third report no later than 24 months from receipt of this letter.

It is the Committee's intent to make these reports available to the public in their entirety. Therefore, the reports should not contain any confidential business or national security classified information.

Best regards,

A handwritten signature in black ink, appearing to read "Bill Thomas". The signature is fluid and cursive, with a large loop at the end of the last name.

Bill Thomas  
Chairman